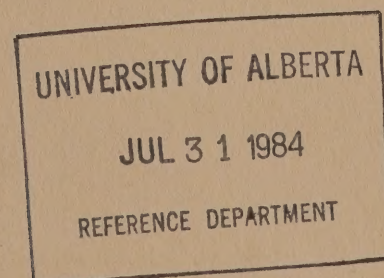


1984 ANNUAL REPORT







## **AURUN MINES LTD.**

### **DIRECTORS**

J.A. CHAPMAN  
Aldergrove, B.C.

J.E. DAGENAIS  
Calgary, Alberta

J. GOODBRAND  
Aldergrove, B.C.

T. JENSEN  
Scarborough, Ontario

T. KUSUMOTO  
Calgary, Alberta

G.J. NAZAR  
Calgary, Alberta

### **OFFICERS**

J.E. DAGENAIS  
President

J.A. CHAPMAN  
Vice-President Operations

T. KUSUMOTO  
Secretary/Treasurer

G.J. NAZAR  
Vice-President Marketing

### **AUDITORS**

Dunwoody & Company  
Calgary, Alberta

### **TRANSFER AGENT**

Canada Trust  
Calgary, Alberta

### **STOCK EXCHANGE LISTING**

Alberta Stock Exchange  
Symbol: AUZ

### **EXECUTIVE OFFICE**

#910 640 - 8 Avenue S.W.  
Calgary, Alberta T2P 1G7

### **PACIFIC PERLITE DIVISION**

1049 LeFeuvre Road  
Aldergrove, B.C. V0X 1A0

### **SALT LAKE CITY OFFICE**

2476 Skyline Drive  
Salt Lake City, Utah 84108

### **ANNUAL MEETING**

The Annual Meeting of Shareholders will be held on Thursday, June 21, 1984 in Salon A & B of the downtown Holiday Inn, 8th Avenue and 6th Street S.W., Calgary, Alberta at 10:00 o'clock in the morning (local time).



## **Report to the Shareholders**

### **GENERAL**

During your Company's fiscal year ending February 27, 1984 and up to the time of writing, May 16, 1984, many significant events have taken place. Among them are the transition from a private to a public company, the subsequent and welcome addition of some 300 shareholders to the original five, and the infusion of substantial funds which permitted the Company to bring Canada's first perlite mine into production along with its first cash flow producer, a perlite expander test plant. In addition, field work was carried out on some British Columbia properties and an important ground position in the U.S.A. was acquired for its precious metals potential. A wholly owned subsidiary, Aurun Mines Inc., was formed to handle the Company's U.S. activities, expected to increase in the near future.

### **FINANCIAL**

Your Company successfully closed its underwriting during a very short period in September 1983, thus raising a net amount of \$845,000 from the sale of 1,300,000 units. Subsequent to the audited financial statements produced by our auditors, Dunwoody & Company, the Company is pleased to report that the warrants were 99.8% exercised, yielding an additional \$763,650 to the treasury.

### **OPERATIONS**

During October 1983, the same month as your Company's shares were listed on the Alberta Stock Exchange, the Frenier Deposit, Canada's first perlite mine, was opened for production. A perlite plant was purchased from a Seattle based company and was erected as a test facility in Aldergrove, B.C. It was operational in February 1984, and was officially opened in March, at a well attended ceremony during which the Honourable William Ritchie, Minister of Municipal Affairs for the Province of B.C., cut the ribbon. John Chapman, your Vice-President of Operations and his team are to be commended for this fine effort.

All of the perlite produced to date has been sold with the test plant working around the clock, seven days a week. This means your Company began generating a cash flow within five months of listing its shares. The product has steadily improved in quality and is now considered superior by some of our customers. It is the intention of your Company to continue striving to make the best possible product.

The market for the remainder of the current fiscal year appears strong due to Gary Nazar, your Vice-President of Marketing and his team. They have successfully sold all the production from the plant. The Company is currently closely assessing the merits of building a permanent, new plant, three times the capacity of the test plant in the B.C. Lower Mainland area. A similar evaluation is underway for a twin plant located in Norwich, Ontario, under a joint venture agreement. All indications are such that a decision to proceed with these two new plants is considered likely by mid year. Startup for them is planned for January 1, 1985. As a result of the new plants, mining production will be greatly accelerated this year, presenting another challenge to your staff.



## AURUN MINES LTD. MINE / PLANT / PROPERTY LOCATION MAP

### BRITISH COLUMBIA

1. Perlite expander test plant.
2. Frenier Mine — perlite.
3. Jewel Lake — gold, silver.
4. Groundhog Basin — gold, massive sulphide, tungsten.
5. Quartz Creek — gold, silver.
6. Good Luck — gold.
7. Mount Begbie — rare earths.

### YUKON TERRITORY

8. Excelsior - gold.
9. Sawtooth - base metals.

### NEVADA, U.S.A.

10. Huntington - gold, silver.



## EXPLORATION AND DEVELOPMENT

Although some interim financing was secured in July 1983, the underwriting funds were not received until September 1983. Since a good part of the field season was then gone, priorities were placed on which properties to do work prior to the arrival of winter. Work continued on the chosen properties until the snow arrived. These properties are listed below.

### **Frenier Mine, Clinton, B.C.**

This is where the largest single expenditure took place. Results were excellent and included diamond drilling which resulted in 450,000 tonnes of proven good grade perlite reserves, sufficient for several decades of production. Prior to drilling, a five man crew under the direction of Dr. John Schindler conducted a thorough program of geological mapping, test pitting, trenching and geophysics on the prime claim. Two claims were added to the original two.

### **Groundhog Basin Project, Revelstoke, B.C.**

A five man crew spent four weeks working on geological mapping, geochemistry, geophysical and sampling programs. Results were encouraging on two counts. First, gold values obtained from quartz veins in several locations ranged from 0.104 to 1.3 ounces per ton and have confirmed expectations that this ground is a source of placer gold for the area. Secondly, a geological unit which is the host for the Noranda Goldstream massive sulphide deposit south of the Groundhog Basin Project area was found within the claims. This also confirms the belief in the potential of the area which led to staking these claims. More work, including trenching, is planned for the significant anomalies found to date.

### **Jewel Lake Project, Greenwood, B.C.**

A preliminary program was carried out on the claim and fraction making up this project. Results confirmed their proximity to the Dentonia Mines workings and warrant further work in the area.

### **Huntington Project, Nevada, U.S.A.**

Late in the field season, in October, your Company staked 127 claims in a promising looking area contiguous to a gold producing, pilot plant heap leaching operation. This property was chosen from dozens investigated by Roy Lammle, your senior geologist responsible for the Company's U.S. activities, as meeting all criteria for a geological heap leaching surface mineable model. This and its proximity to a gold producer means that a field program is warranted and planned for the current field season.

## **Other properties**

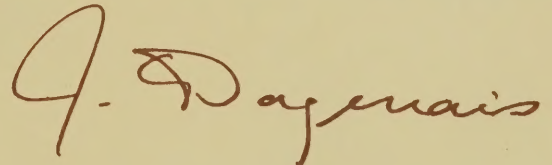
All the other properties in the Company's portfolio were held by payment in lieu of work or had sufficient work done on them during prior years to hold them in good standing without further expenditures.

## **SUMMARY**

Your Company was able to bring a mine, and a test plant on stream, thus generating cash flow in the remarkably short time of five months from having its shares listed on the Alberta Stock Exchange. This is consistent with the aggressive production oriented team of people who are working in your best interests.

The Company is entering the next fiscal year with a strong group of people, a healthy financial position, a cash flow generator which will increase, and mineral properties with good potential. As the Company becomes better known, more good properties are being brought to its attention which will result in more acquisitions.

The future, based on an impressive performance to date, looks good for your Company.



May 16, 1984

J.E. Dagenais  
President and  
Chairman of the Board

## **AUDITORS' REPORT**

### **TO THE SHAREHOLDERS AURUN MINES LTD.**

We have examined the consolidated balance sheet of Aurun Mines Ltd. as at 27 February 1984 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 27 February 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
26 March 1984



CHARTERED ACCOUNTANTS





**AURUN MINES LTD.**  
**CONSOLIDATED BALANCE SHEET**  
**As at 27 February 1984**

**ASSETS**

	<u>1984</u>	<u>1983</u>
CURRENT		
Cash	\$ 54,949	\$ 66,488
Accounts receivable	25,979	3,952
Marketable securities	49,806	—
Prepaid expenses and deposits	7,515	—
Inventory, note 1	78,620	—
	<u>216,869</u>	<u>70,440</u>
FIXED, notes 1 and 2		
Mining properties and equipment	662,059	130,845
Other	4,530	5,625
	<u>666,589</u>	<u>136,470</u>
DEFERRED FINANCING AND ADMINISTRATIVE EXPENSES, schedule, note 1	<u>299,987</u>	<u>125,428</u>
	<u>\$1,183,445</u>	<u>\$332,338</u>

**LIABILITIES**

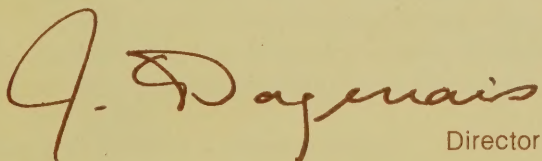
CURRENT		
Bank loan, note 3	\$ 79,500	\$ 50,000
Accounts payable	75,765	59,628
	<u>155,265</u>	<u>109,628</u>
DEFERRED INCOME TAXES	<u>994</u>	<u>—</u>

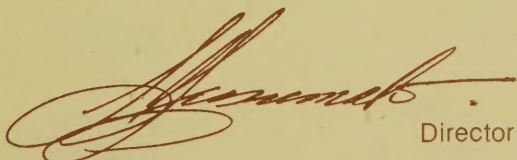
**SHAREHOLDERS' EQUITY**

SHARE CAPITAL, note 4	926,025	122,715
CONTRIBUTED SURPLUS	99,995	99,995
RETAINED EARNINGS	1,166	—
	<u>1,027,186</u>	<u>222,710</u>
	<u>\$1,183,445</u>	<u>\$332,338</u>

SUBSEQUENT EVENTS, Note 7

Approved on behalf of the Board:

  
Director

  
Director

## AURUN MINES LTD.

### CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS For the Year Ended 27 February 1984

	<u>1984</u>	<u>1983</u>
SALES — perlite, note 9	\$ 5,965	\$ —
COST OF SALES		
Mining and processing costs	85,432	—
Less inventory, end of year	78,620	—
	<u>6,812</u>	<u>—</u>
GROSS PROFIT (LOSS)	(847)	—
GENERAL AND ADMINISTRATIVE EXPENSES	5,075	—
LOSS FROM OPERATIONS	(5,922)	—
OTHER INCOME		
Interest income	8,082	—
INCOME BEFORE INCOME TAXES	2,160	—
Income taxes — deferred	994	—
NET INCOME FOR THE YEAR, REPRESENTING RETAINED EARNINGS, END OF YEAR	<u>\$ 1,166</u>	<u>\$ —</u>
Net income per share	<u>\$ 0.001</u>	<u>\$ —</u>

## AURUN MINES LTD.

### CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION For the Year Ended 27 February 1984

	<u>1984</u>	<u>1983</u>
SOURCE OF FUNDS		
Operations	\$ 2,160	\$ —
Issue of share capital	803,310	222,710
	<u>805,470</u>	<u>222,710</u>
USE OF FUNDS		
Additions to mining claims and properties	531,214	130,845
Additions to other fixed assets	600	6,495
Additions to deferred financing and administrative expenses	172,864	124,558
	<u>704,678</u>	<u>261,898</u>
INCREASE (DECREASE) IN WORKING CAPITAL	100,792	(39,188)
Working Capital (deficiency), beginning of year	(39,188)	—
WORKING CAPITAL (DEFICIENCY), END OF YEAR	<u>\$ 61,604</u>	<u>\$ (39,188)</u>
Represented by		
Current assets	\$216,869	\$ 70,440
Current liabilities	(155,265)	(109,628)
	<u>\$ 61,604</u>	<u>\$ (39,188)</u>



# **AURUN MINES LTD.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**27 February 1984**

### **1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Aurun Mines Inc.

**(b) Inventory**

Inventories are stated at the lower of cost and net realizable value.

**(c) Mining properties**

The Company capitalizes all costs relative to acquiring, exploring and developing properties. Proceeds received for a partial disposition are credited to the costs and until the properties are abandoned, sold or placed on production, no gain or loss is recognized. The net costs of properties surrendered or abandoned are written off in the year of surrender. The costs relative to acquiring, exploring and developing each property will be depleted on a unit-of-production method based on total estimated recoverable reserves.

**(d) Fixed assets and depreciation**

Fixed assets are recorded at cost and are depreciated using the declining balance method at the rate of 20% per annum for the months in use.

**(e) Deferred financing and administrative expenses**

The activities of the Company are primarily in the exploratory stage so the majority of the expenses less revenues have been capitalized. Amounts will be written off by an appropriate amortization policy on commencement of production by the Company. In the event of abandonment of a property before arriving at the production stage, these costs will be written off pro-rata based on the total cost of mining properties carried on the books at that time.

The values at which properties and deferred financing and administrative costs are carried may not be indicative of the underlying value of the properties, as activities of the Company are exploratory in nature.

### **2. FIXED ASSETS**

**Mining claims and properties**

**Mining claims**

Groundhog Basin — 57% interest

**1984**

**1983**

\$131,725

\$102,278

Quartz Creek

5,141

274

Goodluck

5,584

2,945

Mount Begbie

1,135

1

Jewel Lake

1,471

11

Excelsior Project - 20% interest

20,723

19,924

(including Bear and Grizzly claims) subject to  
a 10% carried interest

U.S.A. field investigation work

102,862

—

**Option**

Perlite Project

300,077

5,412

Option to explore, develop and operate a mine on  
certain perlite claims in southwestern British Columbia.

Subject to a 1% overriding royalty during the first year  
of mining and increasing to an 8% gross overriding royalty  
thereafter

Mining equipment — Perlite Project

93,341

—

\$662,059

\$130,845

**Other**

**1984**

**1983**

<b>Cost</b>	<b>Accumulated Depreciation</b>
<u>\$ 7,095</u>	<u>\$ 2,565</u>

<b>Cost</b>	<b>Accumulated Depreciation</b>
<u>\$ 6,495</u>	<u>\$ 870</u>

Office furniture

Cost less accumulated  
depreciation

\$ 4,530

\$ 5,625



### 3. BANK LOAN

The bank loan consists of a demand loan bearing interest at 1½ % above the bank's prime lending rate.

### 4. SHARE CAPITAL

#### Authorized

The authorized share capital was changed during the year from 3,000,000 class A voting shares and 2,000,000 class B non-voting shares to an unlimited number of class A voting shares and 2,000,000 class B non-voting shares. The class B preferred shares have priority over the class A shares with respect to dividends and return of capital.

#### Issued

	<u>Class A Shares</u>	<u>Number of Shares</u>	<u>Consideration</u>
Issued at 27 February 1983		1,363,550	\$122,715
Issued for cash			
Public offering (net of issue costs)		1,300,000	761,120
Private placement		26,450	5,290
2,000 series A warrants exercised		1,000	900
40,000 series B warrants exercised		40,000	36,000
Issued at 27 February 1984		<u>2,731,000</u>	<u>\$926,025</u>

At 27 February 1984 class A shares were reserved for issue pursuant to:

	<u>Shares</u>	<u>Anticipated Maximum Consideration</u>
Shares options exercisable at \$1 per share to October, 1985	124,000	\$124,000
1,298,000 series A share purchase warrants exercisable to April, 1984 at \$.90 per share	649,000	584,100
160,000 series B share purchase warrants exercisable to April, 1984 at \$.90 per share	160,000	144,000
	<u>933,000</u>	<u>\$852,100</u>

### 5. RELATED PARTY TRANSACTIONS

During the year the company did business with a company controlled by a director. The transactions amount to \$52,000 for the year, which was the fair market value for the goods and services provided.

### 6. STATUTORY INFORMATION

The Company paid no remuneration to its directors in their capacity as directors and paid \$138,500 to its five highest employees, two of whom are also directors.

### 7. SUBSEQUENT EVENTS

- (a) Subsequent to year end, the Company signed a letter of intent to enter into a joint venture with Kinetic Minerals, Inc. The Company would receive an 80% interest in the Bluebird property, a drilled gold bearing property in the state of Nevada, U.S.A. 50,000 class A shares are to be issued to Kinetic on finalization of the agreement. In addition, 50,000 class A shares are to be issued if the Company continues its involvement beyond 1 September 1984 and an additional 50,000 class A shares are to be issued if the Company chooses not to pay certain lease rentals.

Kinetic is to receive an option to purchase 100,000 class A shares of the Company at \$3 per share. The option is to be exercised before 1 December 1985. The Company has committed to pay \$20,000 (U.S.) per month and agrees to undertake a work program costing \$1,500,000 (U.S.) for the period ending December 1985. The Company may terminate the agreement by giving 30 days' notice at any time after 90 days of signing.

- (b) Subsequent to year end, an additional 20,000 series A warrants were exercised and 10,000 class A common shares were issued at \$.90 per share for a total consideration of \$9,000.



# 8. INCOME TAXES

The Company has non-capital losses of approximately \$199,000 which may be applied against future taxable income. The right to claim these losses expires \$60,000 in 1990 and \$139,000 in 1991. The potential income tax benefit arising from these losses is not recorded in the financial statements.

# 9. COMMENCEMENT OF OPERATIONS

The Company commenced operations of its perlite plant and shipped product to its first customers in February 1984.

Also in February, the Company signed an agreement with Shamrock Industries Ltd. Under this agreement the two parties will share equally in the cost of a new perlite expander plant in Norwich, Ontario. The new Company formed under this agreement will market perlite produced in Norwich for distribution across eastern Canada and the North-eastern United States.

## AURUN MINES LTD.

### CONSOLIDATED SCHEDULE OF DEFERRED FINANCING AND ADMINISTRATIVE EXPENSES For the Year Ended 27 February 1984

	1984	1983
Consulting	\$ 12,709	\$ 11,497
Depreciation	2,565	870
Employee benefits	5,222	1,700
Interest and bank charges	21,207	3,203
Miscellaneous	—	2,216
Office	72,500	23,929
Professional fees	13,966	6,309
Travel and promotion	24,032	6,932
Wages	166,738	87,724
Consulting revenue	(18,952)	(18,952)
	<u>\$299,987</u>	<u>\$125,428</u>

## AURUN MINES INC.

### DIRECTORS

J.A. CHAPMAN  
Aldergrove, B.C.

J.E. DAGENAIS  
Calgary, Alberta

T. JENSEN  
Scarborough, Ontario

T. KUSUMOTO  
Calgary, Alberta

C.A.R. LAMMLE  
Salt Lake City, Utah

### OFFICERS

J.A. CHAPMAN  
President, Secretary

J.E. DAGENAIS  
Treasurer

### EXECUTIVE OFFICES

#910 640 - 8 Avenue S.W.  
Calgary, Alberta



